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October 3, 2008

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SUBJECT: AUDIT OF SOLID WASTE MANAGEMENT CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Solid Waste Management Division (SWMD). Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

Our overall objective was to determine whether cash handling controls practiced by the Solid Waste Management Division effectively safeguard cash. Specific audit objectives were to determine whether:

1. Solid Waste Management established effective cash handling controls and communicated them to all personnel.
2. Solid Waste Management made deposits timely and intact.
3. Solid Waste Management properly maintained and secured its cash funds.

We reviewed internal controls over cash for the period of July 1, 2007 through September 30, 2007. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Solid Waste Management Division did not always effectively safeguard cash. We determined that:

1. SWMD did not always make timely deposits.
2. SWMD did not appear to properly maintain and secure its cash funds.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to Solid Waste Management on August 19, 2008 and discussed our observations with management on August 27, 2008. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Lack of Safeguarding Cash

Cash Box:

The receptionist at the front desk of the SWMD's Main Office keeps checks and any cash received in a small unsecure drawer underneath her computer monitor. The drawer is accessible from the public side of the receptionist desk.

Chapter 3 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) states "During business hours, keep cash in a cash drawer or cash box not accessible to unauthorized persons. Cash drawers or cash boxes must be closed when not in use. Individual employees are responsible for cash drawers assigned to them."

Change Funds:

The Change Fund Custodians are required by the department to carry their individual change fund on their person at all times and are required to take the fund home with them in the evenings and on weekends. Change Funds are not able to be secured in safes at scale locations and issued by a supervisor each morning. Scale Operators need to have change available immediately upon arrival at scale location and cannot wait for Change Fund to be delivered to them. Scale Operators must carry \$750 on their person, in their vehicles and secure it in their homes at all times. Supervisors are required to carry \$2,000. Having Scale Operators and Supervisors carry large sums of cash increases the risk of theft and misappropriation of county assets.

Chapter 3 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) states "Place all cash held overnight in a safe or a locked file cabinet located in a secure area away from the public."

Recommendation:

Cash Box

The receptionist should be provided with a small lock box/cash drawer that should be kept in an area that is inaccessible to the public.

Change Funds

Change funds should be secured at each site in a safe. A designated employee should be responsible for the entire amount of the change funds, and assign and distribute the cash to operators each morning. Additionally, supervisors responsible for the \$2,000 portions of the change fund should either secure the funds at the main facility or at the scale site nearest their home.

Management's Response: SWMD concurs with the finding.

Cash Box: On August 26, 2008, the Receptionist was provided a small locking box for the storage of checks and any cash received. The small locking cash box is kept in a locked filing cabinet furthest away from the public counter and is not accessible by reaching over the counter.

Change Funds: Scale Operators assigned work locations change through the week and Scale Operators may be/are required to work different work locations though the week. In order for Scale Operators to have change funds available to conduct transactions at the beginning of each work day at their assigned work location, they are required to maintain possession of an assigned change fund. In addition, Scale Supervisors may

be required to work any of the scaled SWMD disposal sites throughout the county in the event a Scale Operator can not make it to their scheduled work assignment. For this reason, Scale Supervisors need to be prepared with change funds to begin work assignment as needed. During this fiscal year, SWMD will conduct a pilot program to determine if using a cash-dispensing machine at the Mid-Valley Landfill can eliminate Scale Operators from needing imprest cash accounts. Scale Supervisors will maintain possession of a cash change fund to restock the dispensing machine with appropriate denominations. SWMD will coordinate the cash dispensing machines pilot program with the ACR Internal Audits. SWMD expects to determine the success of the pilot program by February 2009. If successful, SWMD will make necessary recommendations for the FY2009/10 Proposed Budget to fully implement cash dispensing at all sites conducting cash transactions by July 1, 2010.

Auditor's Response:

The Department's response addresses planned actions, regarding the change funds, as well as actions taken, regarding the cash box, to correct deficiencies noted in the finding. In addition, SWMD provided documentation on September 24, 2008 that all relevant staff were trained on cash handling procedures, commingling of funds, overages/shortages and the off duty handling of cash.

Finding 2: Incorrect Use of Cash Shortage Fund

The Cash Shortage Fund Custodian keeps the Cash Shortage Fund on her person to be utilized as a Change Fund on weekends in an emergency. Rather than using the cash shortage fund to reimburse their change fund when shortages occur, Change Fund Custodians will short daily deposits and leave their change fund intact.

Chapter 4 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) states "The purpose of a Cash Shortage Fund is to immediately reimburse a cashier or clerk who, while performing official duties, incurs cash shortages in the Change Fund when receiving or paying out cash." Chapter 5 of the ICCM further states "If the reason for the shortage cannot be determined and the loss is apparently due to a cash handling error, departments that maintain a cash shortage fund will reimburse the shortage from that fund."

Recommendation:

We recommend that the department increase the amount of the department's change funds with proper controls to allow the Custodians to better serve the needs of the scale operators on weekends and in emergencies. In addition, management should require the Change Fund Custodians and the Cash Shortage Fund Custodian to follow County Policy regarding reimbursement for shortages discovered in the daily cash receipts.

Management's Response: SWMD concurs with the finding.

While the cash shortage fund is used for its intended purpose, it has on occasion, been also used as a change fund by the Scale Operations Supervisor II when she has had to fill in for an absent Scale Operator. By December 31, 2008, SWMD will request a \$750.00 increase to its imprest account to provide the Scale Operations Supervisor II with a cash fund to use when filling in as a Scale Operator. By November 30, 2008, the cash shortage fund will be reassigned to the Operations Superintendent and will only be used in the event of cash shortages. The cash shortage fund will be secured in a safe at the administrative office.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding. In addition, SWMD provided documentation on September 24, 2008 that all relevant staff were trained on cash handling procedures, commingling of funds, overages/shortages and the off duty handling of cash.

Finding 3: Personal Funds Were Commingled With the Change Fund

The Change Fund Custodian added personal funds to balance the change fund at the end of the day. The surprise cash count located the miscounted \$5.00 bill and therefore the Change Fund had an overage of \$5.00.

Chapter 3 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) states "Do not commingle employee personal funds with County funds".

Recommendation:

Management should instruct all Change Fund Custodians to never commingle personal funds with County Funds. If a cash shortage is suspected or occurs due to a cash handling error, the steps detailed in Chapter 5 of the ICCM should be followed to report the shortage and replenish the Change Fund.

Management's Response: SWMD concurs with the finding.

SWMD's cash handling policy prohibits commingling of funds. By October 1, 2008, SWMD will provide additional training and direction to insure staff is aware that cash fund and personal funds are not to be commingled.

Auditor's Response:

The Department's response addresses actions taken to correct deficiencies noted in the finding. In addition, SWMD provided documentation on September 24, 2008 that all

relevant staff were trained on cash handling procedures, commingling of funds, overages/shortages and the off duty handling of cash.

Finding 4: Failure to Make Timely Deposits

The Heaps Peak Landfill, Barstow Landfill, Phelan Landfill, and Victorville Landfill have cash receipts picked up by armored transport for delivery to the bank only twice a week and keep excessive cash receipts on site for longer than one business day. Additionally, the Mid-Valley Landfill did not deposit the cash receipts the following business day on August 9, 2007.

Chapter 7 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) requires excessive cash receipts to be deposited by the next business day or at least weekly if cash receipts are minimal.

Recommendation:

Schedule daily armored transport pick-ups at Heaps Peak Landfill, Barstow Landfill, Phelan Landfill and Victorville Landfill, and require cash receipts at the Mid-Valley Landfill to be deposited the next business day to reduce excessive cash receipts kept at those locations and to be in compliance with the new County of San Bernardino Internal Controls and Cash Manual dated January 2008 which requires that "Deposits of all monies collected must be made when the dollar amount reaches \$1,000, or at least weekly if lesser amounts are collected."

Management's Response: SWMD concurs with the finding.

Deposits are made either through armored car service or via direct deposit by scale operators. Deposits made through armored car service are coordinated through ACR and all sites excepting Landers are on scheduled armored car pick up and deposit service. Occasionally/infrequently the armored service is delayed and the pick up has been cancelled by armored service. Landers' deposits are made by the Scale Operator at the end of each work day

SWMD will review daily cash receipts by location, amount and agrees to implement additional daily pickups/deposits where available, appropriate, cost effective, and environmentally sound. On August 21, 2008, SWMD forwarded its request to the ACR for increased armored car services for the Big Bear, Barstow, Phelan, Victorville, Heap Peak, and Landers locations.

In addition, SWMD has several levels of security currently in place to secure cash receipts. First, each scale site building site is kept locked at all times and is outfitted with a security alarm system and panic buttons. Second, each SWMD scale site has a drop safe secured to the foundation that requires two people to open. Procedures require Scale Operators to drop deposit bags into the safe during the day when receipts

total \$1,000. Scale Operators are not able to get into the safe without another key that is held either by the armored car person or a Scale Supervisor. Third, each scale house has an alarm system with an active audio system that allows the alarm company with SWMD Supervisors to monitor the sounds within the scale house 24/7. SWMD is seeking armored car services for the Landers site to reduce the risk to the Scale Operators having to make daily deposits at the bank and not being able to do interim safe drops during the day.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding. In addition, SWMD provided documentation on September 24, 2008 that all relevant staff were trained on cash handling procedures, commingling of funds, overages/shortages and the off duty handling of cash.

Finding 5: Lack of Timely Reconciliation of Petty Cash Fund

The Petty Cash Fund is not reconciled monthly and the checking account is not reconciled to the authorized fund amount. The lack of timely reconciliation caused a \$14.77 shortage to remain undiscovered until the surprise cash count was performed.

Chapter 4 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) states "County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code completes the fund reconciliation. This independent review will help to ensure that transactions have been correctly recorded." Chapter 4 further states that at the end of the reconciliation process the reconciled amount "should equal the fund total."

Recommendation:

Reconciliation of the Petty Cash Fund should be performed at least monthly by an employee other than the fund custodian and of a higher-ranking job code. In addition, management should implement procedures to reconcile bank and book balances of the checking account to the authorized amount and follow the steps listed in Chapter 5 of the ICCM if any shortage is discovered.

Management's Response: SWMD concurs with the finding.

Effective February 2008, SWMD implemented a monthly reconciliation of the petty cash checking account and petty cash. The reconciliation is performed by the Supervising Accounting Technician. Effective September 2, 2008, for the July 2008 reconciliation and forward, SWMD implemented the process for the Supervising Accounting Technician to submit the monthly reconciliation for review and approval to the Accountant III, Staff Analyst II, or Administrative Supervisor II. SWMD agrees to follow the steps listed in Chapter 5 of the ICCM if any shortage is discovered.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding. In addition, SWMD provided documentation on September 24, 2008 that all relevant staff were trained on cash handling procedures, commingling of funds, overages/shortages and the off duty handling of cash.

Finding 6: Noncompliance with Proper Safe Access Procedures

Safe combinations at SWMD were not changed when employees left the department or even annually.

Chapter 3 of the County of San Bernardino Internal Controls and Cash Manual (ICCM) states "Change combinations to safes when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually."

Recommendation:

For all safes with a combination lock, management should implement procedures to change the combinations at least annually or when an employee who has knowledge of the combination leaves the department.

Management's Response: SWMD concurs with the finding.

On August 27, 2008 SWMD had the Mid-Valley safe serviced by a locksmith who replaced the combination-key entry system with a two-key entry system. Now, at all SWMD scale sites, the field safes require two keys to open. One key is secured and maintained on site and the second key is maintained in the custody of the armored car pickup contractor. By October 31, 2008, the combination safes located at SWMD administrative office will have their combinations reset and it will be done annually and as needed when staff changes occur.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding. In addition, SWMD provided documentation on September 24, 2008 that all relevant staff were trained on cash handling procedures, commingling of funds, overages/shortages and the off duty handling of cash.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
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